

AN 3/18/2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

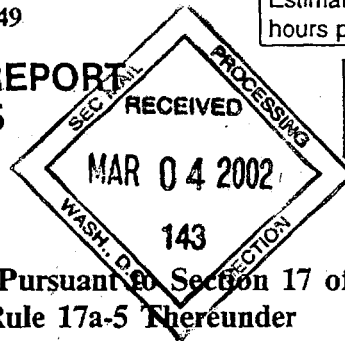
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Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

TC 311

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8-47883



REPORT FOR THE PERIOD BEGINNING 01/01/2001 AND ENDING 12/31/2001  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:  
Freedom Investments, Inc.

OFFICIAL USE ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

11422 Miracle Hills Drive, Suite 501

(No. and Street)

Omaha

(City)

NE

(State)

68154

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Albert G. Lowenthal

(212) 668-5782

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Pricewaterhouse Coopers LLP

(Name — if individual, state last, first, middle name)

1177 Avenue of the Americas

(Address)

New York

(City)

NY

(State)

10036

Zip Code

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

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FOR OFFICIAL USE ONLY

THOMSON  
FINANCIAL

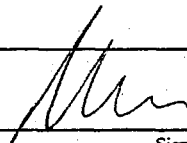
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

3/20/02  
S.S.

## OATH OR AFFIRMATION

I, Albert G. Lowenthal, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Freedom Investments, Inc., as of December 31, ~~XX~~ 2001, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

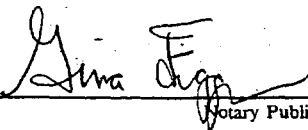
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Signature

Chairman & Chief Executive Officer

Title

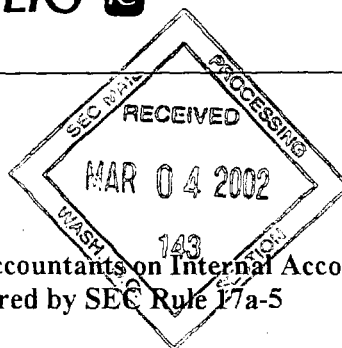
  
Notary Public

GINA FIGLIANI  
Notary Public, State of New York  
No. 01FI6018187  
Qualified in Kings County  
Commission Expires 01/04/03

This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



PricewaterhouseCoopers LLP  
1177 Avenue of the Americas  
New York NY 10036  
Telephone (646) 471 4000  
Facsimile (646) 471 4100

## Report of Independent Accountants on Internal Accounting Control Required by SEC Rule 17a-5

To the Board of Directors and Stockholder of Freedom Investments, Inc.:

In planning and performing our audit of the financial statements and supplemental schedules of Freedom Investments, Inc. (the "Company") for the year ended December 31, 2001, we considered its internal control including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including tests of compliance with such practices and procedures, that we considered relevant to the objectives stated in Rule 17a-5(g) in the following:

1. Making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11), and
2. Determining compliance with the exemptive provisions of Rule 15c3-3.

Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and in the recordation of differences required by Rule 17a-13;
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System, and
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

The management of the Company is responsible for establishing and maintaining internal controls and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control, and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal controls would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2001, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the New York Stock Exchange, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*PricewaterhouseCoopers LLP*

February 8, 2002



# Freedom Investments, Inc.

Statement of Financial Condition  
As of December 31, 2001

**Freedom Investments, Inc.**  
**Index to Statement of Financial Condition**  
**December 31, 2001**

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PricewaterhouseCoopers LLP  
1177 Avenue of the Americas  
New York NY 10036  
Telephone (646) 471 4000  
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### Report of Independent Accountants

To the Board of Directors and Stockholder of  
Freedom Investments, Inc.:

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of Freedom Investments, Inc. at December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

February 8, 2002

**Freedom Investments, Inc.**  
**Statement of Financial Condition**  
**December 31, 2001**

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**Assets**

Cash and cash equivalents	\$ 66,361
Securities owned held by the clearing broker (including U.S. Treasury Bills of \$519,294)	521,121
Investment	30,300
Due from Parent	22,421
Furniture, equipment and leasehold improvements, at cost - less accumulated depreciation and amortization of \$69,071	10,638
Other assets	<u>220</u>
<b>Total assets</b>	<b><u>\$ 651,061</u></b>

**Liabilities and Stockholder's Equity**

<b>Total liabilities</b>	<b><u>\$ -</u></b>
Stockholder's equity:	
Common stock, \$1par value, 1,000 shares authorized, issued and outstanding	1,000
Additional paid-in capital	2,604,347
Accumulated deficit	<u>(1,954,286)</u>
<b>Total stockholder's equity</b>	<b><u>651,061</u></b>
<b>Total liabilities and stockholder's equity</b>	<b><u>\$ 651,061</u></b>

The accompanying notes are an integral part of this financial statement.



**1. Organization**

Freedom Investments, Inc. (the "Company"), a Delaware Corporation, was organized in November 1994 and is a registered broker-dealer under the Securities Exchange Act of 1934. The Company's principal activities include retail sales of corporate, municipal, United States government and agency, and mortgage-related securities, options and mutual funds. The Company is a member of the National Association of Securities Dealers, Inc. The Company provides discount brokerage services to individual investors throughout the United States as well as services to independent financial consultants.

The Company is a wholly owned subsidiary of Fahnstock & Co. Inc. ("the Parent"), whose ultimate Parent is Fahnstock Viner Holdings Inc. ("FVH"), a Canadian public corporation.

The Parent company intends to make additional capital contributions, as necessary, to fund operating losses and to ensure the Company has sufficient operating resources to continue its operations.

**2. Significant Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

Securities owned are recorded on a trade date basis and are valued at market.

Depreciation of furniture and equipment is provided on the straight line basis generally over 5 years and leasehold improvements are amortized over the shorter of 5 years or the life of the lease.

Purchases and sales of securities are recorded on a trade date basis. All securities transactions are cleared through the Parent.

The Company considers its investment in money market funds to be cash equivalents.

**3. Net Capital Requirement**

As a registered broker-dealer, the Company is subject to the Securities and Exchange Commission's Uniform Net Capital Rule 15c3-1, which requires that net capital, as defined, shall be at least the greater of \$250,000 or of 6-2/3% of aggregate indebtedness, as defined. At December 31, 2001, the Company had net capital of \$584,982, which exceeded minimum capital requirements by \$334,982.

**4. Commitments**

The Company has an obligation under a lease agreement for office space which expires on March 21, 2005. The minimum rental commitment under the current lease agreement is as follows:

**Freedom Investments, Inc.**  
**Notes to Statement of Financial Condition**

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	<b>Future Minimum Rentals</b>
Year ending December 31,	
2002	\$ 37,362
2003	38,789
2004	39,278
2005	9,820

**5. Income Taxes**

The Company is included in FVH's consolidated Federal income tax return and its income tax provision is computed on a pro rata basis.

**6. Related Party Transactions**

The Company has a clearing agreement with the Parent to clear its security transactions on a fully disclosed basis. In the event a customer is unable to fulfill its contracted obligation to the Parent, the Company may be exposed to off-balance sheet risk. In addition, approximately \$597,986 of cash and cash equivalents, securities owned and investments are held in its brokerage account with the Parent. The Parent may rehypothecate these securities.

**7. Subsequent Event**

On January 28, 2002, the Company agreed to acquire the business operated by BUYandHOLD Securities Corporation and affiliates for cash consideration of \$2 million plus the market value of securities owned by BUYandHOLD at the date of closing. The Parent intends to contribute capital to the Company for the acquisition. The acquisition is subject to regulatory and other approval.

BUYandHOLD is a privately held retail online brokerage firm headquartered in Edison, New Jersey which launched the first dollar-based equity investing platform in 1999 and currently has a client base of over 125,000 accounts.